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SUBJECT: Jordan's Tax Revenues Increase in 2009, But 2010
Projections Look Grim

Refs: A. Amman 2408

[1](#)B. Amman 2253
[1](#)C. Amman 1804
[1](#)D. Amman 1646
[1](#)E. 08 Amman 1392

[1](#)1. (SBU) Summary: Jordan's Tax Department announced recently that tax collections through October 2009 are 7.2% higher than the corresponding 2008 levels. Better collection efficiency and good business performance in 2008 have led to higher tax revenue income in 2009. Tax reform efforts in 2009 have included an increased focus on curbing tax evasion and increasing collection of back taxes. The Government of Jordan (GOJ) is also making more efficient use of its resources by increasing collection efforts on individuals with higher incomes. Projections for 2010 tax revenues, however, are grim. End Summary.

Increased 2009 Tax Revenues

[1](#)2. (SBU) In a bit of good news following months of bad budgetary news, revenues from tax collection between January and the end of October 2009 reached \$2.97 billion, a 7.2% increase compared to the same period in 2008 when they stood at \$2.77 billion (refs A and D). Tax collection for the month of October 2009 reached \$254 million compared to \$213 million in October 2008. According to Musa Mawazreh, Director General of the Income Tax Department of the Ministry of Finance, his department has been working diligently on increasing its efficiency with a priority focus on collecting outstanding debts and curbing tax evasion. Currently, about \$1.4 billion is registered in the department's books as outstanding amounts dating back for as long as 25 years.

Targeting Scofflaws Yields Higher Collections

[1](#)3. (SBU) Mawazreh explained to EconOffs that collections are increasingly being secured through out-of-court settlements, which have led to an 80% increase in the Department's success rate in collecting overdue taxes. The Tax Department is also seizing assets -- cash, stocks, or real estate -- more quickly, going to the courts earlier, as opposed to waiting for months and years before taking cases to court. For older debts, the Tax Department is now waiving some of the penalties and even a portion of the debt, depending on its age, just to be able to clear its books. Tax Department officials are also implementing a public awareness campaign that encourages taxpayers to come forward to settle their outstanding

debts with the Tax Department to avoid court proceedings. This policy has proven successful as 3,000 taxpayers approached the department recently to satisfy their obligations and benefit from penalty waivers that the Council of Ministers offered earlier in 2009. Additionally, outstanding cases are being resolved within three to four months instead of years, which had been the previous practice. The Tax Department has also shifted focus to those in higher tax brackets. In 2009, 57% of the personal estimates from taxpayers, mostly those with lower tax burdens, were accepted without being audited. This allowed the Tax Department to concentrate its resources and tax collection efforts on the larger tax-paying entities such as individuals and businesses with higher tax burdens so as to better use the Tax Department's resources.

Efforts to Curb Evasion Hampered by Existing Law

14. (SBU) As part of the GOJ's efforts to increase tax revenues, a special directorate was established in 2008 within the Tax Department to curb tax evasion, focusing on the industrial, commercial, and service sectors and their business income and profitability. The new directorate is carrying out sector studies to determine the profit margins of each sector. However, the current Income Tax Law does not support the Tax Department's efforts in this area, since it lacks the requirement that the Department prove the amount of tax evasion. The critical issue under the current law is whether there was an act of tax evasion, not the amount of tax evasion. The law also states that the crime of tax evasion requires a premeditated action. Passive neglect of the statutes is insufficient to establish a violation. The penalty for tax evasion in the current law is double the amount of tax evaded with either a fine between \$141 to \$706, or imprisonment from one

week to one year, but not both. Judges rarely impose the imprisonment sentence on tax evaders and the law does not allow the adjustment of penalties for repeat offenders. Moreover, the current Income Tax Law does not consider tax evasion to be a felony, which carries a fine of more than \$14,000 or a jail term of more than three years.

15. (SBU) A new income tax law, a draft of which failed to pass after being submitted by the GOJ to the parliament during its recent extraordinary session during the summer of 2009, is currently in the making (refs B and C). It is expected that the draft law would propose setting more stringent penalties that would have greater success in compelling individuals and businesses to declare and pay their taxes and would define evasion as a crime against "honor and trust," which would add a criminal citation to an individual's identification records. The proposed draft would also authorize Tax Department auditors to examine bank statements of taxpayers.

16. (SBU) Additionally, Mawazreh confirmed that the Tax Department is working on establishing a database to monitor governmental purchasing and tendering departments in order to have precise information about business activities concerning government contracts. The database will also link national identification numbers for individuals with their activities involving the Amman Stock Exchange, Social Security Corporation, Jordan Customs, and the Land and Surveys Department to allow the Tax Department to better assess indicators of net worth, including income and related business activities. These efforts have benefited from USAID support in modernizing the Tax Department's IT infrastructure and in improving its auditing and collection functions. USAID is also helping the Tax Department restructure, to help it operate more efficiently.

A Grim Outlook for 2010

17. (SBU) According to Mawazreh, the outlook for tax collection in 2010 is not promising, in spite of the Tax Department's efforts. He asserted to EconOfs that the positive rates of collection in 2009 were a reflection of the good performance of companies in 2008, prior to the global recession hitting Jordan. This year's growth and economic performance are significantly lower. As an example, recent profit disclosures of companies trading at the Amman stock exchange showed that profits in the banking sector in Jordan were down 29% over the first six months of 2009 compared to the first six

months of 2008. Arab Bank, a market leader in its field and in Amman's stock market, suffered a 72% drop in its profits during the first half of 2009. Arab Bank's profits plummeted from \$1.15 billion in the first half of 2008 to \$320 million in the first six months of 2009.

¶8. (U) Another important factor for the grim outlook for 2010 dates back to November 2007, when international commodity prices increased, and the GOJ eliminated sales taxes on 13 basic commodities (ref E). These taxes used to generate about \$140 million in revenues annually. Taxes on other goods were also reduced. For example, the fluctuation in iron prices and the 2007 tax cuts have contributed to significant losses of tax income for Jordan. Jordan imported an annual average of 842 million tons of iron and steel between 2005 and 2008. The value of these imports reached \$532 million in 2007 and \$787 million in 2008. The GOJ used to tax iron and steel at 16%, generating \$85 million in tax income during 2007. This decreased in 2008 to \$63 million at the 8% tax rate instead of an estimated \$126 million that would have been generated if the tax rate had been at 16%. Such fluctuations in international prices and the GOJ's responses to them have contributed to losses in Jordan's tax income.

¶9. (SBU) Comment: The GOJ continues to face a dilemma in finding ways to balance its budget and in finding new streams of revenue to support its budget. In addition to significant cuts built into the 2010 budget, the GOJ will likely need to take other painful steps. Reinstating or increasing sales taxes on some basic commodities are options, but unpopular choices when unemployment remains high and wages stagnant. Empowering tax auditors to do their job properly is another important area requiring tough decisions that would require capital expenditures in hardware and software to link the critical tax and income-related government entities to the Tax Department (a tough proposition during the 2010 budget process and its

across-the-board cuts) and amending the current Income Tax Law, possibly as a provisional law following the dissolution of Jordan's parliament on November 23. End comment.

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